Q&A (Summary) on the Corporate Strategy Meeting of the Sony Financial Group for Fiscal 2016

Date:	June 1, 2016 (Wednesday), 16:00–17:30 (JST)	
Respondents:	Katsumi Ihara	President, Representative Director of Sony Financial Holdings Inc.
	Shigeru Ishii	Executive Vice President, Representative Director of Sony Financial Holding Inc.
	Tomoo Hagimoto	President, Representative Director of Sony Life Insurance Co., Ltd.
	Atsuo Niwa	President, Representative Director of Sony Assurance Inc.
	Yutaka Ito	President, Representative Director of Sony Bank Inc.

Note: The original content has been revised and edited for ease of understanding.

[Q&A]

Q1: [SFH]

Would it be correct to assume that ¥55 per share will be your minimum dividend amount even if the earnings environment worsens? Will there be any change in your dividend policy (target payout ratio: 40–50%)?

A:

We have not necessarily set ¥55 per share as a minimum dividend amount, but there will be no change in our policy of steadily increasing dividends in line with earnings growth over the medium to long term, while maintaining financial soundness. Currently the dividend payout ratio exceeds our target range, but 40–50% is only a guide. We would like you to understand that we are strongly committed to enhancing shareholder dividends.

Q2: [Sony Life]

(Page 19 of the presentation materials)

How does your ordinary profit target for fiscal 2018 take into account the impact of a revision in the discount rate used for calculating policy reserves? Also, if the scale of negative interest rates increases over the medium to long term, is it realistic to design products that set negative assumed interest rates?

A:

With regard to the impact of a revision in the discount rate used for calculating policy reserves, we are unable to answer that question at present, as we are currently considering a variety of measures centered on a revision in premium rates. Realistically, we believe it would be difficult to design products that set negative assumed interest rates.

Q3: [Sony Life]

I understand that you will disclose MCEV calculated using ultimate forward rates (UFRs) from Q1 of fiscal 2016. Going forward, will your full reports on MCEV use that same standard? I would like to know about actual business management and your policy for disclosing figures that do not use UFRs.

A:

The figures that we disclose from Q1 of fiscal 2016 will be calculated using UFRs, and we do not plan to disclose MCEV that does not apply UFRs. In terms of business management, while disclosing MCEV and ESR using UFRs, for managing product profitability we will maintain our previous standard, which does not employ UFRs.

Q4：[Sony Life]
As Sony Life handles products with long insurance periods, for risk management and product pricing decisions, would it be better to make management decisions based on figures that do not employ UFRs?

Setting insurance premiums and product management are extremely important. At the same time, as it is also necessary from an ERM perspective to incorporate risk management into product management and sales strategies, would it be preferable to manage products according to MCEV that does not use UFRs?

A：
The origin of the discussion about using UFRs was the fact that ESR was 104% as of March 31, 2016. With interest rates flattening out, we had a number of discussions about what adjustments to make, and ultimately we decided to introduce UFRs, extrapolating interest rates from the 41st year and beyond. From a product management standpoint, however, we will maintain our previous standard of managing profitability without using UFRs. Going forward, we will continue to employ such policies as discontinuing the sale of products that do not meet our standards or responding by revising premium rates.

Q5：[Sony Life]
ESR was 104% as of March 31, 2016, or 140% if calculated using UFRs. What is the figure at present? Also, approximately what would be the new business value as of March 31, 2016, calculated using UFRs?

A：
Even when interest rate levels were at their lowest in April–May 2016, the figure would have exceeded 100%. Therefore, we believe that we have ensured sufficient soundness and that increasing capital is not necessary. We plan to disclose new business value after introducing UFRs when we announce results for Q1 of fiscal 2016.

Q6：[Sony Life]
Will you revise your incentive structure for Lifeplanner sales employees on products with low profitability?

A：
We are not changing our commission structure. In line with our product strategy, our sales percentage of variable life insurance is reduced to around half compared with that of the fiscal 2015 level of 15% (based on annualized premiums from new policies), and we would like to raise our percentage of insurance denominated in foreign currencies from 2% on the same basis. We intend to improve profitability by focusing on term-life insurance and insurance denominated in foreign currencies, as well as increasing sales to corporate customers.

Q7：[Sony Life]
What sort of discussions took place at Board of Directors when making the decision to change the ESR calculation standard? In particular, what sort of discussions did you have with the outside directors?

A：
The origin of the discussion was the fact that ESR was 104% as of March 31, 2016. In general, ESR expresses the relationship between risk and capital, and 100% is the level that needs to be maintained. If the figure drops below 100%, we would need to consider increasing capital. When taking this into consideration, we also discussed what to do if ESR fell below 100% using the current standard and whether a capital increase would really be required. Because of how flat interest rates are becoming, we

judged that the current adjustment method lost its appropriateness when extended a 30–40 year yield curve out to the 41st year and beyond, so we decided to employ UFRs. This was the result of serious discussions, including from the viewpoint of whether it would be better to calculate conservatively and accumulate excess capital.

First, Sony Life decided on its policy. Thereafter, a discussion was held by SFH, including outside directors. When holding these discussions, after explaining the current status at Japanese competitors, of European and international standards and other matters, we ultimately came to an agreement to use UFRs.

Q8：[Sony Life]
(Page 6 of the presentation materials)
By "partially revised the calculation method," are you referring just to UFRs? Is it included in changes in the method of measuring lapse risk? If interest rates were to fall further, wouldn't the new standards be a problem when interest rates were at their worst? What is your new ESR target under the new standard?

A：
The change in method refers only to the use of UFRs. We will consider other risk coefficients, the cost of capital rate and other factors going forward. We expect to reflect the results of these considerations in our figures during fiscal 2017. Our target is for ESR to exceed 100%, and we plan to continue working to accumulate new business value.

Q9：[Sony Life]
Why are you using 3.5% for MCEV and managing product profitability? Even though you are using a market consistent model for MCEV, isn't 3.5% too high?

A：
When deciding on this rate, we referred to two regulations being introduced in Europe—Solvency II and IAIS. Current UFR levels under the Solvency II framework are 3.2% for Japanese yen and 4.2% for Euro. The revised proposal currently being submitted is for rates of 3.7% for both Japanese yen and Euro. IAIS, meanwhile, is conducting field tests, with a UFR level for Japanese yen of 3.5%. There is no clear regulatory standard for Japanese yen, but we decided to adopt the 3.5% figure by referring to the IAIS regulatory trends. We have introduced UFRs for ESR and MCEV, but to manage product profitability we are continuing to use our previous standard, which does not apply UFRs.

Q10：[Sony Life]
Why has your lapse risk as of March 31, 2016, risen so significantly in comparison with other life insurance companies?

A：
The reason the lapse risk has risen is that the risk of non-cancellation has increased as interest rates have fallen.

We are aware that our method of measuring lapse risk is conservative, but we are not changing the method at this stage. As we monitor future regulatory trends, we believe we will need to revise this method, along with other risk coefficients and cost of capital rate. We assume that our current risk coefficients are conservative and an increase in the cost of capital rate would offset each other, so we believe there would be no major impact. We will disclose this once we have made a formal decision.

Q11：**[Sony Life]**

Over the medium to long term, how do you expect your initiatives targeting the corporate market to affect the new business margin, duration of liabilities and overall profitability?

A：

Fiscal 2016 marks the first year of our efforts targeting the corporate market, and we are starting to see some successes in the Lifeplanner channel. In general, profitability is high on some corporate products and low on others. Our initial emphasis for fiscal 2016 will be on increasing volume as we anticipate that our sales effort will extend across corporate customers and their employees. It is difficult to provide any quantitative explanation of the potential impact on operating performance. We do not expect to see a change in durations for the company as a whole.

Q12：**[Sony Life]**

There is a trend toward reinforcing sales of level premium plan life insurance in over-the-counter sales through banks. Sony Life's Lifeplanner channel has been superior to the salesperson channel used by the leading Japanese life insurers, but will the competitive environment change as banking personnel adopt a consulting-type approach and strengthen sales of level premium plan life insurance?

A：

Lifeplanner sales employees are in charge of their customers throughout their lives, providing value that exceeds expectations. They uncover potential needs and provide support over the long term. As a company, our aim is to protect customers throughout Japan for their entire lives—a policy of providing customers with lifelong protection. We do not expect any major changes in the competitive environment.

Q13：**[Sony Bank]**

What is the current effective rate on Sony Bank's mortgage loans? How will you respond if the effective interest rate is negative?

A：

More than half the amount of new mortgage loans uses variable interest rates. After negative interest rates were announced, preferential interest rates fell 4bp, from 0.539% (February 2016) to 0.499% (June 2016). Ten-year fixed interest rates fell around 17bp, from 0.967% (January 2016) to 0.965% (February 2016) to 0.790% (June 2016). We will continue to make decisions by taking into account the competitive environment and the balance between loans and deposits.